

MINUTES
LEGISLATIVE GOVERNMENT OVERSIGHT COMMITTEE
October 29 and 30, 2007

The Legislative Government Oversight Committee met October 29 and 30, 2007, in the Supreme Court Chamber at the Capitol. Senator Tom Courtney, Chair, called the meeting to order at 11:08 a.m. on Monday, October 29. Other members present were:

Senator Pat Ward, RM
Senator Mary Lundby
Senator Becky Schmitz

Representative Vicki Lensing, Chair
Representative Wayne Ford, VC
Representative Ralph Watts, RM
Representative Steven Olson
Representative Kurt Swaim
Representative Jodi Tymeson
Representative Wes Whitead

MINUTES

Senator Courtney made a motion to approve the minutes from the previous meeting. No changes were noted. The Committee approved the minutes from the September 17, 2007 meeting.

OVERVIEW

The primary focus of the meeting concerned issues relating to the operation of the Iowa Student Loan Liquidity Corporation (ISL), on-campus credit card solicitation practices, and a general discussion of student debt in Iowa relative to other states.

AUDITOR OF STATE'S REPORT ON IOWA STUDENT LOAN LIQUIDITY CORP

Mr. Warren Jenkins, Chief Deputy Auditor of State, provided a report and recommendations regarding various aspects of the operation of ISL. Mr. Jenkins provided background information regarding the formation of ISL in 1979 as a non-profit corporation whose purpose is to assure that low-cost student loans are available to Iowa students, and indicated that ISL is authorized by statute to sell both taxable and tax exempt bonds to acquire student loans made at Iowa educational institutions. The Auditor's Office indicated that it reviewed written reports based on a private audit of ISL performed by KPMG and an internal survey performed by ISL. He stated that ISL has grown substantially in the past several years into a multi-billion dollar operation, with the growth attributable to increasing tuition and textbook expenses, a corresponding increase in student need and/or willingness to finance their college education, and ISL's ability to offer favorable loan terms because of its non-profit status and ability to issue tax-exempt debt. Mr. Jenkins summarized ISL's current outstanding student loan holdings, outstanding bond debt, amounts held in reserve, and executive compensation levels relative to other states.

Recommendations for better control, oversight, and structure in connection with ISL included:

- Elimination of potential conflicts of interest by removing the Superintendent of Banking and an Iowa College Student Aid Commission representative from membership on the ISL Board, potentially replacing them with current or former student loan holders, and correspondingly removing an ISL representative from the Commission.

- Requiring ISL's annual audit to be filed with the Auditor's Office and authorizing the Office to perform additional investigations or reviews in connection therewith.
- Stipulating that ISL is subject to Open Meetings provisions.
- Requiring ISL to prepare an annual or biennial report for submission to the Governor and General Assembly discussing its operations, financial status, and future outlook.
- Requiring the College Student Aid Commission to accumulate and periodically report information regarding student loan interest rates and loan terms to help potential borrowers evaluate various lenders' loan programs.

Committee discussion included the interrelationship between ISL and the Iowa College Student Aid Commission, whether additional oversight in this area is needed, whether the original intent in establishing ISL is still being met in light of its substantial growth, and comparison of ISL with similar entities in other states. In addition, several Committee members expressed disappointment and frustration with the Auditor's Office for its delayed response in answering the legislative inquiry. The Committee members had several questions for the Auditor's Office that would require follow up after the meeting, including an interest in seeing the KPMG audit reports.

STUDENT DEBT OVERVIEW AND RESEARCH

Mr. Robert Shireman, President, Institute for College Access & Success, Inc., accompanied by Mr. Matthew Reed, Research Analyst for the Institute, examined student debt within a historical context, identified reasons underlying Iowa's relatively high student debt, and advanced possible approaches for remedying this. Mr. Shireman stated that while historically investing in higher education has been a sound investment, borrowing to subsidize sound investments is generally discouraged and within the education arena a degree may not justify the ultimate expense. He pointed out the advantages and features of federally insured loans, discouraged private loans for financing a college education, and offered as alternatives to obtaining loans the possibility of budget reductions, parental assistance, grants and scholarships, and an honest assessment of whether higher education is appropriate for a student.

In contrasting Iowa with other states, Mr. Shireman indicated that Iowa has the second highest student debt level in the country. In assessing why, he discounted high tuition levels (other than community colleges), total college costs, and lower family incomes as not supported by research, but indicated that grant aid is low at Iowa public universities and community colleges and that the college-going rate is high. He characterized ISL's partnership loans as a contributing factor to the State's high level of student debt, stating that the rates are higher than might be obtained elsewhere by borrowers with healthy credit and packaged and presented like an exclusive or special loan product.

Mr. Shireman recommended increases in need-based grant aid, prohibiting the packaging of private loans as part of a financial aid award, focusing subsidizing loans on targeted populations, and obtaining additional information from colleges and ISL to more closely monitor student debt.

IOWA COLLEGE STUDENT AID COMMISSION

Ms. Karen Misjak, Director, Iowa College Student Aid Commission, accompanied by Mr. Keith Greiner, Legislative Liaison for the Commission, and Ms. Janet Adams, Commission Chair, discussed the Commission's mission and vision, dual role as a State agency and guarantor, and the financial aid and student loan process. Ms. Misjak cited as concerns the fact that college costs are increasing faster than family incomes, there has been little increase in federal and State grand

aid versus loan debt, family savings are decreasing, parental (PLUS) loans are underutilized, private loans are increasing as are direct to consumer marketing of such loans, and that students are not utilizing full federal loan eligibility. She indicated that the Commission is more aggressively promoting PLUS loans, and recommended an increase in State appropriations for grant aid, increasing the Commission's role in educational outreach programs and college access initiatives, requiring financial literacy courses in high school, and working with financial aid officials to help Iowa families make the best financial decisions.

Further, Ms. Misjak advocated an evaluation of State-funded education loan programs, encouraging lenders and secondary markets to focus efforts on providing borrower benefits and working with borrowers to successfully repay, and requiring private student loan lenders to report price and volume data.

Committee discussion included exploring why private loans have increased so much and why the increase in Iowa was so much (the presentation noted the increase was 5,000.0% over the last ten years). In addition, many Committee members inquired about the underutilization of PLUS and asked why is that occurring in Iowa.

ISL OVERVIEW AND OPERATION

Mr. Steve McCullough, President and CEO, ISL, accompanied by Ms. Victoria Payseur, ISL Board Vice-Chair, and Mr. Tom Gronstal, ISL Board member, discussed ISL's role in the student loan process, how student loans work, and problems for the loan system and for students. Ms. Payseur discussed the original impetus for ISL's formation, noted that no State subsidy is involved, described the organization's governance structure, and cited ISL's reinvestment in programs benefiting Iowans. Mr. McCullough summarized the student loan origination and disbursement process, and emphasized that ISL suggests students interested in borrowing first explore scholarship and grant availability, work/study options, and full utilization of guaranteed loan capacity before considering a private loan. Mr. Gronstal described an internal and external audit process for ISL, indicating that ISL has always received unqualified audit opinions.

ISL emphasized that it does not create demand for student loans but reacts to it, remains focused on the mission of providing student loans at the lowest possible cost, and maintains that Iowa students are utilizing federal loans at a higher than average rate and private loans at a lower than average rate. Mr. Gronstal stated that ISL views the auditor's report as validating that no financial irregularity or misconduct has occurred in its operation, and that ISL is willing and committed to implementing the auditor's recommendations.

Committee discussion included numerous concerns and questions for ISL, including underutilization of PLUS loans, breakdown of minorities applying for loans, proof that ISL is providing the best rates, policies related to ISL Board members and reimbursement payments and bonuses to them, and use of the college planning centers. Many of the questions needed follow up from ISL after the meeting.

STUDENT REPRESENTATIVES

Students from the University of Iowa, Iowa State University, and University of Northern Iowa addressed student debt and credit card solicitations from a student perspective. In general, discussion concerned coping with student debt, the extent to which they are experiencing credit card solicitations, and the existence of public awareness campaigns or education efforts from their institutions relating to debt management and financial literacy. Student feedback included commentary that they do not view alumni association credit card solicitation as widespread among students, but contrasting opinions were presented regarding whether solicitations aimed at

students should be continued. Concern was expressed regarding distribution of published student information to off-campus marketing organizations, and some form of opt-out mechanism from such distributions was advocated. Additionally, some students expressed reservations regarding offering students free gifts or food in association with a credit card solicitation offer.

RECESS TO OCTOBER 30

At 6:05 p.m., Senator Courtney recessed the meeting until 9:00 a.m., Tuesday, October 30.

CALL TO ORDER

At 9:05 a.m., Tuesday, October 30, Senator Courtney called the meeting back to order.

BOARD OF REGENTS INSTITUTIONS

Financial officials from the University of Iowa, Iowa State University, and the University of Northern Iowa (UNI), accompanied by representatives from their respective alumni organizations, discussed university policies relating to student on-campus credit card solicitations. The organizational structure and legal status of each alumni association was summarized, and it was emphasized that reports of failure to comply with a request for information relating to credit card agreements ostensibly made by the Board of Regents were inaccurate given that in fact the Board never issued such a request.

Mr. Vince Nelson, Director, Alumni Services, University of Iowa, stated that the university limited campus credit card solicitations to students by offering exclusive marketing rights to one affinity credit card organization, thereby eliminating all other credit card solicitations that the target audience for the program was alumni, not students, and that students comprise a very small percentage of cardholders.

Mr. Jeffrey Johnson, President & CEO, Iowa State University Alumni Association, made similar remarks regarding the intended audience for credit card solicitations and small numbers of students acquiring them, but noted that other vendors can solicit at narrowly defined on-campus locations at Iowa State. Mr. Mark Jastorff, Director of Alumni Relations, UNI, stated that UNI recently discontinued a comparable affinity credit card agreement after a review of its overall program and services. Mr. Nelson and Mr. Johnson both indicated that the Presidents of their respective institutions have requested their alumni associations to review their credit card agreements and solicitation practices.

The extent to which identifying student information is required by federal law and accessible to non-campus organizations was discussed, as were course offerings designed to improve financial literacy and on-campus financial services counseling availability. Additionally, committee members inquired as to the existence of any formal agreement between the universities and ISL, and were informed that the University of Iowa never had an agreement, and that the other two universities have terminated agreements once in place out of concerns relating to rising student debt and public perception.

ATTORNEY GENERAL PERSPECTIVE

Mr. Tom Miller, Attorney General, State of Iowa, characterized student utilization of credit cards as a dangerous and an easy trap to fall into. He indicated that the Attorney General's Office has done some on-campus financial education, discouraged partnerships between universities and credit card companies, and emphasized that alumni association marketing efforts should be targeted strictly at alumni, not students. Attorney General Miller further indicated that his office will be

making recommendations regarding the issues previously discussed in connection with ISL and private student loan utilization and availability, and advocated improved relations between ISL and the Iowa College Student Aid Commission. He agreed with Committee commentary that part of the rationale for structuring ISL as a private not-for-profit organization was to avoid State liability issues.

PRIVATE COLLEGES

Ms. Nancy Wallace, Alumni Programs Director, Graceland University, addressed the issue of credit card solicitations from a private institution standpoint. Ms. Wallace stated that more widespread grant availability at private colleges helps to reduce student loans, and that Graceland offers a course on the proper use of credit. She also indicated that, in contrast to the three regents institutions, credit cards can be used for tuition and textbook expenses, and stated that most students arrive on campus in possession of at least one such card. Ms. Wallace said that a credit card agreement is in place for the benefit of alumni, with no student names or information distributed to marketing organizations.

COMMUNITY COLLEGES

Ms. Laurie Wolf, Executive Dean of Student Services, accompanied by Mr. Don Duzik, Director of Financial Aid, Western Iowa Tech Community College, discussed the issue of student debt and credit card usage and education from a community college perspective. Ms. Wolf noted a generally older and more self-reliant and self-employed community college student demographic, cited low grant availability and higher community college tuition costs relative to most other states, and indicated that credit cards can be used to cover community college expenses. She advocated financial education at the primary and secondary school level utilizing the expertise of State banking and credit union organizations or associations, college pre-loan counseling, employer-sponsored education and tuition reimbursement plans, more need-based financial assistance and grant funding for colleges, and prohibiting predatory lending practices regarding credit card solicitation of minors.

NEXT MEETING

The Committee is scheduled to meet December 17 and 18 in the Supreme Court Chamber at the Statehouse. The meeting will commence at 11:00 a.m. on December 17 and 9:00 a.m. on December 18.

ACTION ITEMS – FOLLOW UP

Several questions were asked of the presenters. LSA Staff will follow up with all the specific questions for ISL, ICSAC, Auditor of State, and Board of Regents.

ADJOURNED

Senator Courtney adjourned the meeting at 2:05 p.m. on Tuesday, October 30.